CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE
Project Staff Report
Tax-Exempt Bond Project
May 18, 2016
REVISED

Pensione K, located at 1100 17th Street in Sacramento, requested and is being recommended for a reservation of $230,704 in annual federal tax credits to finance the acquisition and rehabilitation of 127 units of housing serving tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Barone Galasso and Associates, Inc. and is located in Senate District 6 and Assembly District 7.

Pensione K is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Pensione K (CA-94-079). See **Special Issues/Other Significant Information** below for additional re-syndication information.

Project Number CA-16-880

Project Name Pensione K

Site Address:	1100 17th Street	
	Sacramento, CA 95811	County: Sacramento
Census Tract:	11.010	

Tax Credit Amounts	**Federal/Annual**	**State/Total**
Requested:	$230,704	$0
Recommended:	$230,704	$0

Applicant Information

Applicant:	1702 Studio Housing Partners L.P.		
Contact:	Michael Galasso		
Address:	1528 India Street		
	San Diego, CA 92101		
Phone:	(619) 316-5895	Fax:	(619) 232-2127
Email:	mbgalasso@baronegalasso.com		

General Partner(s) or Principal Owner(s):	Barone Galasso and Associates, Inc.
	Pacific Housing, Inc.
General Partner Type:	Joint Venture
Parent Company(ies):	Barone Galasso and Associates, Inc.
	Pacific Housing, Inc.
Developer:	Barone Galasso and Associates, Inc.
Investor/Consultant:	RBC Capital Markets
Management Agent:	Barone Galasso and Associates, Inc.

Project Information

Construction Type: Acquisition and Rehabilitation
Total # Residential Buildings: 1
Total # of Units: 129
No. & % of Tax Credit Units: 127 100.00%
Federal Set-Aside Elected: 40%/60%
Federal Subsidy: Tax-Exempt / HOME
HCD MHP Funding: No
55-Year Use/Affordability: Yes
Number of Units @ or below 35% of area median income: 20
Number of Units @ or below 50% of area median income: 103
Number of Units @ or below 60% of area median income: 4

Bond Information

Issuer: Housing Authority of the City of Sacramento
Expected Date of Issuance: June 1, 2016
Credit Enhancement: Citi Community Capital

Information

Housing Type: Non-Targeted
Geographic Area: Capital and Northern Region
TCAC Project Analyst: Mayra Lozano

Unit Mix

129 SRO/Studio Units
129 Total Units

Unit Type & Number		2015 Rents Targeted % of Area Median Income	2015 Rents Actual % of Area Median Income	Proposed Rent (including utilities)
20	SRO/Studio	30%	30%	$375
92	SRO/Studio	40%	40%	$501
11	SRO/Studio	50%	50%	$626
4	SRO/Studio	60%	60%	$751
2	SRO/Studio	Manager’s Unit	Manager’s Unit	$751

Project Cost Summary at Application

Land and Acquisition	$3,708,800
Construction Costs	$0
Rehabilitation Costs	$2,398,340
Construction Contingency	$239,834
Relocation	$437,485
Architectural/Engineering	$75,000
Construction Interest, Perm Financing	$281,185
Legal Fees, Appraisals	$161,500
Reserves	$257,338
Other Costs	$271,103
Developer Fee	$792,153
Commercial Costs	$91,200
Total	**$8,713,938**

Project Financing

Estimated Total Project Cost:	$8,713,938
Estimated Residential Project Cost:	$8,622,738
Estimated Commercial Project Cost:	$91,200

Residential

Construction Cost Per Square Foot:	$47
Per Unit Cost:	$66,843
Effective Per Unit Cost:	$65,253

Construction Financing

Source	Amount
Citi Community Capital	$4,500,000
SHRA Assumed Loan	$1,752,628
SHRA - HOME	$1,190,000
Deferred Developer Fee	$792,153
Tax Credit Equity	$479,157

Permanent Financing

Source	Amount
Citi Community Capital	$3,000,000
SHRA Assumed Loan	$1,752,628
SHRA - HOME	$1,190,000
NOI during construction	$141,636
Deferred Developer Fee	$207,282
Tax Credit Equity	$2,422,392
TOTAL	**$8,713,938**

Determination of Credit Amount(s)

Requested Eligible Basis (Rehabilitation):	$3,418,057
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	$2,655,120
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	$4,443,474
Qualified Basis (Acquisition):	$2,655,120
Applicable Rate:	3.25%
Maximum Annual Federal Credit, Rehabilitation:	$144,413
Maximum Annual Federal Credit, Acquisition:	$86,291
Total Maximum Annual Federal Credit:	$230,704
Approved Developer Fee (in Project Cost & Eligible Basis):	$792,153
Investor/Consultant:	RBC Capital Markets
Federal Tax Credit Factor:	$1.05000

Per Regulation Section 10322(h)(9)(A), The “as if vacant” land value and the existing improvement value established at application, as well as the eligible basis amount derived from those values, will be used during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits.

Per Regulation Section 10327(c)(2)(C), Once established at the initial funded application, the developer fee cannot be increased, but may be decreased, in the event of a modification in basis.

Eligible Basis and Basis Limit

Requested Unadjusted Eligible Basis:	$6,073,177
Actual Eligible Basis:	$6,073,177
Unadjusted Threshold Basis Limit:	$23,299,077
Total Adjusted Threshold Basis Limit:	$51,490,960

Adjustments to Basis Limit

95% of Upper Floor Units are Elevator-Serviced

55-Year Use/Affordability Restriction – 1% for Each 1% of Low-Income Units are Income Targeted between 50% AMI & 36% AMI: 81%

55-Year Use/Affordability Restriction – 2% for Each 1% of Low-Income Units are Income Targeted at 35% AMI or Below: 30%

Cost Analysis and Line Item Review

Staff analysis of project costs to determine reasonableness found all fees to be within TCAC’s underwriting guidelines and TCAC limitations. Annual operating expenses are slightly below the minimum operating expenses established in the Regulations, but shall meet the minimum at placed in service, and the project pro forma shows a positive cash flow from year one. Staff has calculated federal tax credits based on 3.25% of the qualified basis. Applicants are cautioned to consider the expected federal rate when negotiating with investors. TCAC's financial evaluation at project completion will determine the final allocation.

Special Issues/Other Significant Information

To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. The initial 15 year compliance period is from January 1 of the owner's elected first year of credit through December 31 of the 15th year. The existing regulatory agreement expires 12/31/2050. Under the existing regulatory agreement (CA-94-079), the 129 units shall be occupied by tenants such that the average income of tenants is at or below 40% AMI, and such units shall be rent restricted in accordance with such income level. The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement and any deeper targeting levels in the new regulatory agreement for the duration of the new regulatory agreement.

The project is a re-syndication that is subject to the hold harmless rent provisions of the federal Housing and Economic Recovery Act of 2008 (HERA). The applicant requested and is approved to underwrite the project at the hold harmless rent limits. The new regulatory agreement shall reflect the current tax credit rent limits, while the project may continue to charge hold harmless rents (specifically, for 123 units targeted at below 60% AMI) only until such time as the current tax credit rent limits equal or exceed the hold harmless rents.

The project is a re-syndication occurring concurrently with a Transfer Event. The project set aside a Short Term Work Capitalized Replacement Reserve in the amount of $53,975, in accordance to TCAC regulatory requirements. The Short Term Work Reserve Amount of $53,975 is excluded from eligible basis.

The proposed rent does not include a utility allowance. The owner will pay for all utilities.

Local Reviewing Agency
The Local Reviewing Agency, Sacramento Housing and Redevelopment Agency, has completed a site review of this project and strongly supports this project.

Recommendation
Staff recommends that the Committee make a preliminary reservation of tax credits in the following amount(s) contingent upon standard conditions and any additional conditions imposed by the Committee:

Federal Tax Credits/Annual	State Tax Credits/Total
$230,704	**$0**

Standard Conditions
If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee's next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

The IRS has advised TCAC that the amount of tax-exempt bonds issued, equivalent to at least 50% of aggregate basis, must remain in place through the first year of the credit period or until eligible basis is finally determined.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

Additional Conditions

The applicant/owner is required to provide the tenants with the following service amenities free of charge for a minimum of fifteen (15) years in accordance with the bond allocation from CDLAC. These services may be changed to meet the needs of the tenants upon prior approval from CDLAC and written notification

- Instructor-led educational classes, health and wellness or skill-building classes off-site within 1/2 mile for a minimum of 84 hours per year

The applicant/owner is required to complete the following sustainable building methods in accordance with the bond allocation from CDLAC and provide the applicable certifications and documentation when the TCAC placed-in-service application is submitted:

- The project will commit to having at lest one (1) nonsmoking building. If the project only has one (1) building, it will be subject to a policy developed by the Sponsor that prohibits smoking in contiguous designated units. These restrictions will be incorporated into the lease agreements for the appropriate units.
- The project commits to a parking ratio equivalent of 1 parking stall or less per SRO.